15 of the proposal of the European Commission for an electronic commerce directive, and with Article 1, Par. 5 of the German "Multimedia Act" (Informations und Kommunikationsdienste Gesetz) of June 13, 1997.

The general rule in the European Commission proposal, the German Act and in the Dutch Scientology decision is that ISPs are in principle not liable for infringing material on their servers unless they have knowledge of such infringements and then do nothing.

The German legislator, the European Commission and the Dutch court each take a different approach to the question of how ISPs should act when they are notified of infringing material. The German Act provides that ISPs should block the use of the content while the European Commission proposal states that ISPs should "act expeditiously to remove or to disable access to the information upon obtaining such knowledge or awareness."

The Dutch court goes further than that, however, as it states that ISPs should remove the information and disclose the identity of the site-holder/content provider. When it is impossible for plaintiffs to find out who the site-holder or content provider is — and this is often the case — attempts are made to sue the ISP instead.

With regards to whether the ISP should remove the material — and even hyperlinks to infringing material on other sites — or block the access thereto, the German Act and the EC proposal state that the ISP has a choice between the two measures, whereas the Dutch court decided that the information should be removed. This particular aspect of the ruling may cause problems then if an ISP removes certain material, which is claimed to be infringing, and it is later on decided that the material did not concern an infringement.

Furthermore, the decision of The Hague court also opens the door for so-called "horizontal regulation." That is, future requirements for liability of ISPs may not only apply in copyright infringement matters but also in matters concerning any other unlawful acts. This is also provided by the German Multimedia Act and the EC proposal.

Whatever the merit of the arguments for and against the material in question, it does not seem wise from a public policy perspective to make the messenger liable for the content of the message. If one were to accept the rationale of ISP liability, presumably the post office would be liable every time someone sends a poison-pen letter. Moreover, I doubt this is really what the law provides. It's just that ISPs are, at least at present, a soft, wealthy and available target. **IP**

UNITED STATES:

Method Madness

The battle over e-commerce patents heats up

By RICHARD POYNDER
Special to *IP Worldwide*

Since patents were first issued, the birth of each new industry has tended to trigger a new debate over patentability. A hundred years ago, critics questioned whether agricultural inventions could be protected, on the grounds that agriculture was not an industry. Twenty years ago, it was argued that to grant pharmaceutical patents would be unethical. And today the biotechnology industry finds itself at the centre of the so-called "patenting of life" controversy.

It should, therefore, come as no surprise that a development as radical as the Internet should spark its own patenting wrangle. In particular, a cluster of patents issued by the U.S. Patent and Trademark Office covering e-commerce methods and techniques has set off a storm of criticism.

The main complaint is that many of these new patents are far too broad in scope. Massachusetts-based Open Market, for instance, has been granted several patents that, some claim, could potentially allow it to demand royalties from almost any company engaged in e-commerce. These include a patent on a secure, real-time payment method using debit and credit cards, one covering electronic shopping carts, and another on a technique for analysing how users browse Web content. To date, Open Market has not taken legal action against supposed infringers.

In contrast, Sightsound.com — which claims to have been granted a patent that covers the sale of any digital audio or video recording over the Internet — is currently suing N2K, a company that retails music on the Web. The Mt. Lebanon, Pa., company has also written to a number of other prominent music sites demanding royalties on every sale that involves downloading music to a customer.

CEO Scott Sander insists that Sightsound.com is only seeking the same reward any inventor would expect. "Sony and Philips received a royalty for each compact disc that was sold while their patents on CD technology were in force," he says. "We're seeking the same right."

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But e-commerce is different, says Cary Sherman, senior executive vice president at the Recording Industry Association of America, because it requires such a wide range of technologies. "You may have to use compression technologies, watermarking technologies, encryption technologies, clearinghouse technologies — all of which could be an essential component of a digital distribution system," he says. "Paying royalties on all these technologies adds up, and represents a significant cost factor."

Compounding the problem, says Chuck Williams, chief scientist at Cylink, a California company that has itself been granted a number of patents covering encryption, is that the Internet is developing too quickly for the patenting authorities to keep pace. "Like everybody else, the U.S. Patent Office has been caught off guard by the Internet," he says. "It simply doesn't have time to learn what makes sense, and what doesn't."

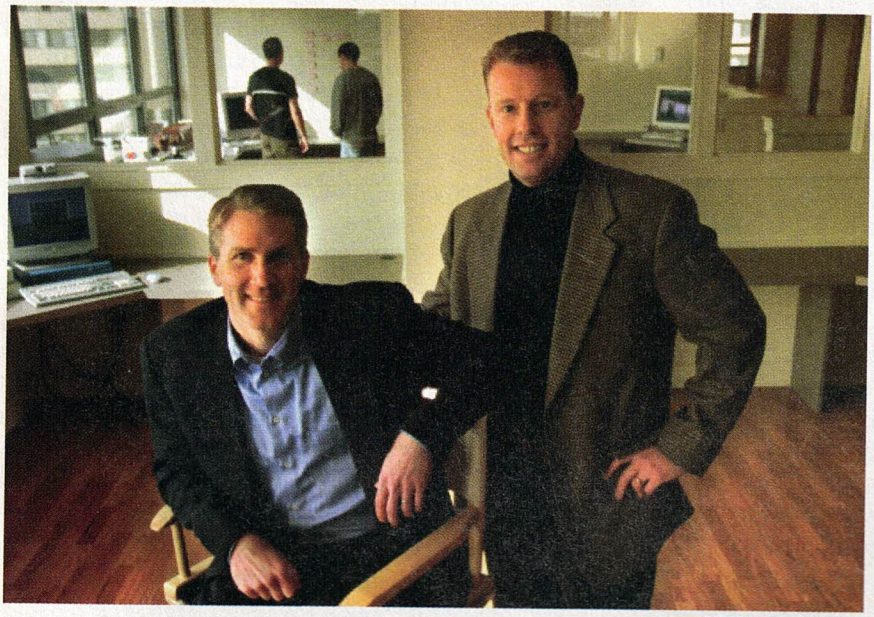
PTO Commissioner Q. Todd Dickinson disagrees. "We have a highly skilled group of patent examiners with a technical background that matches up very well with the kind of technologies they are seeing — and we think we issue patents of an appropriate breadth."

A 1998 Federal Circuit U.S. Court of Appeals ruling, endorsing the principle that business methods can be patented, has prompted an onslaught of filings for — and PTO approvals of — business method patents. Critics fear that the door has now been opened to allow anyone to take a familiar business method from the physical world, add the word "network," and then patent its use on the Web.

Frequently cited in this regard is Priceline.com, which, among other things, claims to have patent rights on Internet-based "reverse auctions" — where buyers propose a price for a product or service, and sellers bid to supply it. Likewise, Netcentives has been granted a patent covering the use of a promotional programme in which consumers earn points for making online purchases.

"A lot of commentators are worried that patents will be issued on business methods that have been used for years," says Dickinson. "But that is not going to happen because if they have been used for years, and publicly, then a patent cannot be issued, as the method is not novel."

The question of what is novel, however, makes for contentious discussions. When Oakland, Calif.-based Cybergold was issued a patent on pay-per-view advertising (where users are rewarded for looking at Internet-based advertisements), many questioned its novelty. But Cybergold's CEO, Nat Goldhaber, dismisses the criticism. "When I explained what we were doing to one of the leading men in American advertising, he told me our business model was so innovative that he would have to go back and relearn the business."



PITTSBURGH POST-GAZETTE

KEEPING UP WITH THE SONYS: "Sony and Philips received a royalty for each compact disc that was sold while their patents on CD technology were in force," says Sightsound.com CEO Scott Sander (left), pictured with chief technology officer Arthur Hair. "We're seeking the same right."

Until recently it was assumed that the controversy was not relevant to Europe. Historically, software (which e-commerce patents by definition are) has not been patentable in Europe; nor is it generally accepted that business methods can be patented.

But apart from the inherent problems of trying to enforce a geographically defined legal system on a global network, current harmonisation initiatives are eroding national differences. Thus, in response to the European Commission Green Paper on patenting, the European Patent Office has recently proposed that §52 of the European Patent Convention should be replaced with wording agreed upon during the Uruguay Round of the GATT Accord.

"If this were to happen, not only would it open the door to the patenting of software in Europe, but to business methods as well," argues Bob Hart, chairman of the Computer Technology Committee of the U.K. Chartered Institute of Patent Agents. "Which would make it highly likely that many of these e-commerce patents would be granted in Europe, too."

Certainly a patents search reveals that applications for most of the controversial e-commerce patents have been filed at the World Intellectual Property Organization. Many of the inventors of those applications indicate an intent to file in most European countries as well.

But as intellectual property attorney Alan Fisch points out, it will be the courts that have the final say in the matter. "Litigation serves as the best test of a patent's validity and enforceability," says Fisch, an associate at Howrey & Simon in Washington, D.C. "Some of these patents simply won't survive a court challenge." **IP**